

Name, E-Mail: Ronald Bachmann; Ronald.Bachmann@rwi-essen.de
Peggy David; Peggy.David@rwi-essen.de
Sandra Schaffner; Sandra.Schaffner@rwi-essen.de

Institution: Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI), Essen, Germany

Titel: Pay transitions and inequality in Europe

Abstract: In Europe, there exist remarkable cross-country differences in income inequality. While some countries, especially the UK, have experienced a substantial rise in wage dispersion, other countries such as Italy and France have shown only modest increases. Wage mobility might play a crucial role in this context, since it can reduce wage inequality and thus can contribute to an equalization of earnings (Buchinsky and Hunt 1999, Dickens 2000). For economic policy, it is therefore very important to understand how country-specific differences in wage mobility patterns and wage inequality can be explained. Furthermore, cross sectional analyses of inequality provide only limited insights into short-term inequality.

Using data from the European Union Statistics on Income and Living Conditions (EU-SILC), covering the years 2003 to 2007, this paper aims at investigating the extent and causes of wage mobility as well its effects on the wage distribution. Due to the longitudinal structure, this data set is particularly well suited to analyse this issue, as it allows to observe individuals and their wage profiles over time. Moreover, it covers all countries of the European Union (as well as Norway), such that important country-specific differences can be investigated.

In the first part of the paper we descriptively and empirically investigate the income mobility, which is measured by the transitions between quantiles of the income distribution over time. Based on transition matrices, we calculate different measures of mobility and compare them across countries and demographic subgroups. The findings reveal large cross country differences. State dependence is the highest in Scandinavia and continental Europe and it is the lowest in the Mediterranean countries. Regarding the characteristics of the individual workers, the results suggest that income mobility, especially upward mobility, is mostly driven by workers who change their job. Furthermore, differences between men and women, age and skill groups as well as different household types can be observed. Male workers are more mobile than women and even experience larger transitions. Regarding differences in age groups the probability of upward transitions is the highest for young workers.

In the second part of the paper, the relationship between income mobility and income inequality is investigated using several inequality measures. Again, comparisons are made between countries and demographic subgroups. The measures indicate that countries in Central and Eastern Europe have the highest income inequality, while Scandinavian countries such as Denmark, Finland and Norway exhibit the lowest values of inequality. Although cross-sectional wage inequality appears to be quite persistent, it is partly reduced by wage mobility. The equalising effect of wage mobility strongly differs among countries and demographic subgroups. In particular, while the equalising effect of wage mobility appears to be relatively strong in Central and Eastern Europe, it is much weaker for countries in Continental Europe. Moreover, young workers who change jobs exhibit the most pronounced reduction in wage inequality.